Distr.
GENERAL

GC.6/25
11 October 1995

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

GENERAL CONFERENCE

Sixth session
Vienna, 4-8 December 1995
Item 9 (h) of the provisional agenda

INDUSTRIAL DEVELOPMENT AND COOPERATION ACTIVITIES: PRIVATE SECTOR DEVELOPMENT

Private sector development, industrial rehabilitation and modernization

Progress report by the Director-General

Summary

Reports on the implementation of Industrial Development Board decision IDB.13/Dec.15 on private sector development as well as General Conference resolution GC.5/Res.4 and Board decision IDB.13/Dec.5 on industrial rehabilitation and modernization.

CONTENTS

		Paragraphs	*Page*
Introduction		1	2
Chapter			
I.	THE CONTEXT	2 - 11	2
II.	POLICY-LEVEL SERVICES	12 - 20	3
III.	INSTITUTIONAL-LEVEL SERVICES	21 - 25	4
IV.	ENTERPRISE-LEVEL SERVICES	26 - 41	4
	A. Scope and approach of the programme	27 - 29	4
	B. Implementation of the programme	30 - 38	4
	C. Cooperation with regional and other relevant organizations	39 - 41	5
V.	ACTION REQUIRED OF THE CONFERENCE	42	6

V.95 57778 (E) (b:\1995\gmo.16)

Distr.: 19 October 1995

Introduction

1. In its resolution GC.5/Res.4 the General Conference recognized the increasing role of the private sector in industrial development and the need for UNIDO to take into consideration supporting the development of the private sector in its programmes and projects. In that context the Conference approved the UNIDO programme for industrial rehabilitation and modernization (GC.5/12/Rev.1) and requested the Director-General to cooperate with regional organizations assisting developing countries in industrial rehabilitation and modernization and to take into consideration the activities of relevant organizations in the field of privatization and cooperate with them. The Director-General was requested to present to the Conference at its sixth session, through the Board, a report on the implementation of resolution GC.5/Res.4. The report of the Director-General (GC.6/5-IDB.13/12, chap. III) was presented to the Board at its thirteenth session. The Board in its decision IDB.13/Dec.5 requested the Director-General, in implementing the revised UNIDO programme for industrial rehabilitation and modernization: (a) to continue to cooperate with regional and other relevant organizations in assisting developing countries in their industrial rehabilitation and modernization, including privatization, and to develop joint programmes for industrial restructuring within the framework of cooperation agreements between UNIDO and such organizations; (b) to continue to mobilize resources from international financial institutions in support of activities under that programme; and (c) to report on the implementation of the decision to the General Conference at its sixth session. Also at its thirteenth session, in decision IDB.13/Dec.15, the Board requested the Director-General to pursue a number of specific services that UNIDO could offer to developing countries in private sector development.

I. THE CONTEXT

2. Developing countries are increasingly recognizing the role of the private sector and of the market for efficient resource allocation and for the successful international integration of their economies. In an increasingly competitive global environment enterprises are forced to build up their resilience and their capability to adjust and compete both in the national and international product markets.

3. Many enterprises in developing countries face major constraints in their endeavours to enhance their competitiveness. Often shielded from competition by restrictive government policies, they have previously had little incentive to be efficient. A sudden exposure to fierce competition from well advanced and endowed foreign companies will require significant rapid adjustments. These adjustments need to be carried out in a situation of financial and foreign exchange constraints, with obsolete or poorly maintained equipment and facilities, and with a too large and undertrained workforce.

4. In this situation, private enterprises need external support and guidance. First, basic conditions and an enabling environment need to be created for a competitive industrial sector to develop. Government and the business community will have to share the responsibility for this task.

5. For Governments, the task is to make a transition from a controlling and protecting role to one that stimulates industry and facilitates its restructuring. This means, *inter alia*, ensuring overall economic stability and competition, building up essential physical and institutional infrastructure and establishing a functioning capital market. Policies may be necessary to promote regional development, an industry-oriented educational system, entrepreneurship development, industrial innovation and other essential dimensions of national competitiveness. Industrial associations and chambers of commerce face major tasks to provide essential information and other support services to members, and to communicate the concerns of private enterprises to national policy makers.

6. UNIDO support to the development of the private industrial sector addresses some of these issues at three levels: government policy, organizations and institutions, and enterprises.

7. The strategy of the Organization for assisting private sector development is determined by the actual demand for UNIDO services from developing countries and countries in transition, the supply capacity of UNIDO and the availability of financial resources. The framework for UNIDO programmes in this field are, however, the Organization's thematic priorities as laid down in document IDB.14/13.

8. The seven themes elaborated in that document provide the basis for UNIDO support to private sector development. Thus, one area is strategies, policies and institution-building for global economic integration. Within this theme, UNIDO advisory assistance in respect of establishing a market-based economic system with a well-functioning private industrial sector focuses on two interrelated issues:

(a) Services in support of industrial development strategies, policies and programmes as well as institution-building;

(b) Capacity-building, which concentrates on enhancing the ability of: (i) Governments and regional

authorities to formulate and implement industrial strategies; (ii) private sector organizations to deliver services to industry and to participate in policy-making and implementation.

9. Other major themes also refer to support to private industries, such as the programmatic theme on rural industrial development, which includes the issue of regional development.

10. Thus, the main services provided by UNIDO in support of private sector development cover areas such as: industrial policy formulation and implementation, including interactive policy formulation systems; regional development; seminars on market economies; industrial restructuring; organizational enhancement of government agencies; creation of corporate groups; promotion of business organizations; industrial estates, science and technology parks and export processing zones.

11. Chapters II and III below report on measures taken at the policy and institutional levels respectively in line with Board decision IDB.13/Dec.15. Chapter IV covers the enterprise level and reports on the implementation of Board decision IDB.13/Dec.5. That chapter also updates the information on industrial rehabilitation and modernization contained in document GC.6/5 (chap. III) and should be read in conjunction therewith.

II. POLICY-LEVEL SERVICES

12. UNIDO provides advisory services to national policy makers in close cooperation with the business community on the formulation of industrial policies conducive to private sector development. The services aim at the creation of an enabling environment for industrial development in general and regional development of private industry in particular. Assistance to restructuring of public sector enterprises is another key area of services. Some examples of these services are shown below.

13. In support of Ghana's private sector development programme, cooperation between the Government and the business community will need to be enhanced. To this end, UNIDO will assist in identifying industrial development priorities and in setting up a consultative mechanism facilitating interactive policy formulation and action programmes. This innovative approach ensures that the private sector is involved in and empowered to contribute to policy formulation and implementation in genuine partnership with the Government.

14. In Georgia, the UNIDO programme of policy advisory services reviewed the public manufacturing sector and made recommendations on its future management, restructuring and training for factory managers and staff. A series of follow-up projects is being developed.

15. In the Republic of Moldova, policy advice is provided in support of private sector development. In the context of an ongoing programme on small and medium enterprises (SMEs), this project aims at creating an institutional, legislative and regulatory environment conducive to new and newly privatized industries.

16. A development programme will be formulated for the heavily industrialized Sumgait region of Azerbaijan. UNIDO will carry out a survey of the industrial development potential and formulate a regional development concept for revitalizing the sector and for building up the necessary institutional infrastructure.

17. A workshop on the implications of the North American Free Trade Agreement on industries in Caribbean countries is to be held in Trinidad. The intention is to increase awareness of the challenges emerging from the Agreement for manufacturing industry and industrial services in the region, and to recommend action to be taken by Caribbean countries to enhance the subregion's competitiveness.

18. A workshop for Algerian policy makers on industrial restructuring in the framework of policy reforms in Algeria addressed long-term industrial growth issues, prerequisites for successful privatization, privatization instruments, the institutional set-up and the government-industry interface for sound industrial policy formulation.

19. With UNIDO assistance a medium-term industry and trade strategy is being developed for Viet Nam through a comprehensive, integrated support programme. It has several aspects: policy advice based on a detailed assessment of the industrial sector and its comparative advantages; elaboration of action programmes; and the strengthening of required capacities, in line with the Government's new role in the economy. The project integrates statistical intelligence management, investment promotion, regional development planning and institutional reform and thus contributes to capacity-building in various key fields.

20. Also in Viet Nam, UNIDO carried out a study on the prospects for industrial development in the Red River Delta region through integration with agricultural and infrastructural development plans. This project took place in the context of a large United Nations Development Programme/World Bank programme for the region.

III. INSTITUTIONAL-LEVEL SERVICES

21. On the basis of its wide international experience, UNIDO advises on the evolving role of Government, a role which, in most countries, is moving from regulation to facilitation. At the private industry sector level, UNIDO assists in establishing and strengthening institutions such as chambers of commerce and industry and professional organizations, thus ensuring their effective integration in policy-making. Support is also provided to the establishment and effective operation of industrial infrastructure. The following examples of such activities illustrate their range.

22. In Albania, an assessment was undertaken of the structure and staff resources of the Ministry of Mineral Resources and Energy. As a result, a thorough restructuring plan was elaborated, commensurate with the new role that the Ministry is to play in a market economy system. A workshop on enterprise restructuring and new management methods was held and a detailed analysis of restructuring requirements of the oil industry was carried out. A comprehensive training programme is under formulation.

23. The Federation of Chambers of Commerce in Nepal was assisted by UNIDO in the setting up of an industrial information base, and in training of its professional staff, including aspects of participation in trade fairs, etc.

24. In Mauritania, the General Federation of Employers is to be given organizational support to improve its delivery of services to national and foreign entrepreneurs in the small- and medium-scale sector, and to develop a portfolio of projects.

25. The Government of Swaziland will be assisted in assessing the viability of the export processing zone concept as a policy option for investment and export promotion as well as employment generation. Pipeline projects have been formulated for the creation of a special customs area in Uruguay and Argentina.

IV. ENTERPRISE-LEVEL SERVICES

26. As mentioned in paragraph 11 above, the present chapter focuses on activities carried out within the UNIDO programme for industrial rehabilitation and modernization and should be read in conjunction with chapter III of document GC.6/5. To facilitate the reading, reference is made under each title to the relevant paragraphs of that document.

A. Scope and approach of the programme (paras. 78-82)

27. This area of UNIDO activities experienced a change in thrust and scope in late 1994 and particularly in 1995. The increasing globalization of markets, trade and production (as a consequence of the Uruguay Round Agreements) had strengthened the focus on competitiveness as an issue, integrating attention to quality and certification to ISO 9000 standards as a dominant feature. This led to a rearrangement of programmes within the Human Resource, Enterprise and Private Sector Development Division resulting in a move of the quality-related programme complex to the Enterprise Development and Restructuring Branch. The rationale was to join all technical cooperation activities in support of enterprise-level competitiveness under one umbrella. This approach was further refined in the context of the preparation of the proposals for the programme and budgets, 1996-1997, and the elaboration of the programmatic themes as described in document IDB.14/13 on the strengthened focus of UNIDO activities. On the basis of the formulation of theme 4 (innovation, productivity and quality for international competitiveness), the work of the Enterprise Development and Restructuring Branch will be directly and exclusively relevant to components 4 (a) (quality management) and 4 (b) (enterprise restructuring and rehabilitation, including privatization).

28. In addition to competitiveness, it is particularly the concept of "marketization" (a business environment in which all companies have to respond to the same market-driven conditions) that needs to be introduced or strengthened, so as to prepare countries and enterprises to cope with the realities of market liberalization. Marketization is a particularly important feature in restructuring and privatization programmes in former command economies or countries with weak private sectors where state-owned operations dominate whole industrial subsectors. A clear link to overall private sector and particularly small and medium industries and entrepreneurship development needs to be acknowledged.

29. In 1995, UNIDO thus has had to respond to new demand voiced by countries with economies in transition in all regions.

B. Implementation of the programme (paras. 83-92)

30. Further examples are given below of recent UNIDO activities carried out under the four subprogrammes, which have been enhanced by a component on quality management.

Assistance to industrial enterprises in improving performance towards (re)attaining economic and technical viability

31. Assistance commenced in previous years continued in several African countries such as Ethiopia and the United Republic of Tanzania. The influence and consequences of the Uruguay Round Agreements in relation to the competitiveness of African enterprises will be examined in a group of African countries. Training programmes for improvement of management capabilities were conducted in Poland and Romania and will be delivered in Moldova before the end of 1995.

Advisory services at the policy and institutional levels

32. In addition to the services mentioned in chapters II and III above, policy and institutional issues are also addressed in the context of restructuring/privatization and the quality complex since they are intimately related. Such services are being requested for example by Angola, for which a large scale re-dimensioning programme has been designed and is being updated in light of requirements stipulated by the World Bank for funding approval.

Promotion of direct investment and mobilization of financial resources as key inputs to the industrial restructuring and privatization processes

33. A cost-shared workshop is planned together with UNCTAD for mobilization of funds to continue successful privatization activities in Uzbekistan. The workshop will present the country overall as well as industrial investment opportunities and will endeavour to broaden the range of investors and joint venture partners. Invitations have also been extended to international financial institutions, the International Chamber of Commerce, multinational companies and export credit agencies, such as Japan's EXIM-bank.

Advisory services and assistance in the context of restructuring, rehabilitation, modernization and privatization

34. Interest in the privatization component of the programme is growing. Activities in Peru, Sri Lanka, Sudan and Uzbekistan are ongoing and will serve as case studies for countries with similar backgrounds and sets of problems. In an attempt to disseminate an analysis of experiences and widen the acknowledgement of UNIDO know-how and approaches, a particular effort has been made to develop project and programme modules in a team effort involving different organizational units. This approach takes advantage of the wide range of expertise in the Organization in assisting enterprises from different industries and subsectors with their requirements for assessments or restructuring. Privatization will thus become one of the team efforts tapping particularly the sectoral know-how in UNIDO and elaborating standard packages and modules for programmatic issues, such as creation of a social safety net linked to SME development, entrepreneurship development and training and reskilling and environmental concerns and clean-up in the turn-around processes.

35. Such programme clusters have been set up in Moldova, Romania, Uzbekistan, and are in the make for Albania and Kazakhstan. Austrian cost-sharing will be instrumental for the packaging of a land-registration module as an important standard feature in private sector development and privatization programmes for countries such as Yemen and some countries in Central Asia.

Quality management

36. Quality, standardization and metrology (QSM) is part of the competitivity enhancement programme championed by UNIDO. As an integrated programme, QSM includes inputs at the policy, institutional and enterprise levels comprising design of a quality policy, and support in the establishment and strengthening of standardization bodies, which in turn will help to create adequate infrastructure for private and public sector industrial development.

37. Particularly high demand for UNIDO services is noted in the field of ISO 9000. UNIDO assistance aims at providing access certification to ISO 9000 standards as an effective means to increase competitiveness and attract investment. For maximum impact, the UNIDO strategy comprises support to policy-making and planning institutions and technical cooperation at the enterprise level with the aim to achieve ISO 9000 certification.

38. In 1994, UNIDO finalized the systems approach for continuous quality improvement developed during the implementation of the regional programme for modernization of the capital goods sector in Latin America. Two application software packages were developed known under the acronyms of BEST (Business Environment Strategic Toolkit) and FIT (Financial Improvement Toolkit). They are being tested by more than 90 enterprises and UNIDO plans to disseminate them world-wide after completion of the English, French and Spanish language modules.

C. Cooperation with regional and other relevant organizations (paras. 93-97)

39. Exchange of privatization experience within the region can be an important factor in achieving progress. Besides participating in the Central and Eastern

European Privatization Network, UNIDO is now joining the effort to establish a regional network for Asia under World Bank leadership. Building on successful cooperation with the World Bank in the Middle East, UNIDO will participate in a seminar in Islamabad, Pakistan, in November 1995, when the Asian network will be inaugurated.

40. In Africa, UNIDO is now exploring the feasibility of a regional network programme under an Industrial Development Decade for Africa project. Once the feasibility has been established, financing will be sought for network activities.

41. UNIDO has been an active participant in the Organisation for Economic Cooperation and Development (OECD) Advisory Group on Privatization. In addition to participating in substantive technical meetings, UNIDO hosted the semi-annual meeting of the Group in September 1994.

V. ACTION REQUIRED OF THE CONFERENCE

42. The Conference may wish to take note of the information contained in the present document and provide guidance for further action.